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Strategic Business Audit of Nelnet

An Undergraduate Honors Thesis

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Abstract

This thesis serves as a strategic audit for the company Nelnet. This covers Nelnet's background, structure, and financial situation. Changes in Nelnet's core student loan business has created uncertainty in their future. Multiple analyses, both internal and external, are performed and examined to determine Nelnet's position as a company and within the marketplace. A strategic recommendation to continue growth in new technologies is presented in response to these analyses along with implementation details and alternatives.

Key Words: Business, Strategy, Strategic Audit, Nelnet

Strategic Business Audit of Nelnet

Overview

Company Background

Nelnet began in 1978 as UNIPAC Loan Service Corporation, a student loan servicing company and a non-profit student loan secondary market. In 1996, UNIPAC Loan Service Corporation was renamed to Nelnet, and the two organizations merged in 1998 forming the foundation of Nelnet's current business. Nelnet became a publicly traded company in December of 2003, raising \$164 million at IPO (Nelnet, 2003). During this time, Nelnet became a leader in federal student loans, primarily those under the Federal Family Education Loan Program (FFELP). This program was discontinued in July of 2010 and required new federal student loans to be made through the Federal Direct Loan Program instead. However, this had no effects on previously existing loans made under FFELP (Nelnet, 2018).

A significant percentage of Nelnet's income is directly tied to FFELP loans, and the expected lifetime of those investments is 20 years, with roughly half ending by 2025 (Nelnet, 2018). To deal with this impending threat to the company, Nelnet has invested in expanding its services and products both inside and outside its core educational domain. They are accomplishing this through internal growth of existing products and services and through acquisitions of other companies.

Nelnet is still a leader in federally subsidized student loans and has recently acquired another leading competitor Great Lakes Education Loan Services, consolidating the industry to three major players. Additionally, Nelnet has recently expanded into consumer loan servicing, leveraging their existing infrastructure in a new market (Noordhoek, 2018).

Nelnet has been providing payment plans for private and religious K-12 schools since 1985, which are unaffected by changes in government legislation. Nelnet has been expanding their offerings in this market beyond payment plans to software products and payment processing services.

Additionally, Nelnet invests in startup companies such as Hudl, Nebraska Global, Travefy, and others. Investments in Hudl alone total \$51.8 million. Not all investments work out for Nelnet though, as the divestiture of Peterson's Publishing shows. Peterson's Publishing provided test preparation products and services, which seem like a natural fit with Nelnet's educational software. However, their products did not align with the company's strategic goals, and they were sold off at the end of 2017 (Noordhoek, 2018).

Operating Segments

Nelnet has four main operating segments, broadly grouped by product types and the type of customers that use them. Nelnet identifies these groupings as Loan Systems and Servicing, Tuition Payment Processing and Campus Commerce, Asset Generation and Management, and Communications (Nelnet n.d.a). While there is some overlap and synergies between segments, each functions largely independently from the others, generating their own revenue and facing distinct competition and legislative issues.

Loan Systems and Servicing, also referred to as Nelnet Diversified Solutions, handles all services and software dealing with the servicing of student and consumer loans. This includes servicing the loans

themselves, outsourcing services for other entities, and providing technology solutions for student loan servicing.

Tuition Payment Processing and Campus Commerce, also referred to as Nelnet Business Solutions, handles tuition payment plans and billings, payment processing, payment technologies, and financial needs assessment services, as well as school information system software, learning management systems, and educational instruction services. These products are grouped based on the customers they service and most new products are added to this segment to leverage the existing customer base to penetrate the market.

Asset Generation and Management handles the companies loans and assets and the acquisition of new loan assets. This overlaps slightly with Loan Servicing, but that largely looks to bring in new loan assets while this goes beyond and looks at acquisitions of existing loans and management of loan portfolios.

Communications is a new venture for Nelnet after they acquired ALLO at the end of 2015. ALLO is an all-fiber network with gigabit capabilities. It services business and homes with internet, broadband, telephone, and television with 71,400 customers in a current potential market of 137,500 customers. Due to the large upfront infrastructure cost, ALLO has been losing money and will continue to do so for several years as planned expansions in the Nebraska and Colorado area take place. After initial costs are paid though, ALLO has the potential to provide a steady stream of long term income.

In addition to these operating segments, Nelnet is involved in other, smaller business activities and investments. Financial information for these activities is not readily available and will be ignored for the purposes of this strategic audit. However, specific investments may be noted later on to provide context for specific decisions and recommendations.

Financials

Presented in this section are some key financials from Nelnet's 2017 annual report (Nelnet, 2018). Only data important for this analysis will be covered to provide appropriate situational context. Further information and breakdown of Nelnet's financial can be found in the report proper.

Starting with Nelnet's operating data, shown in *Figure 1*, there are a few things to note. Net interest income has dropped by over 25% since 2015. This is the result of their FFELP loan portfolio amortizing, and it is an expected but still concerning drop. Nelnet's other operating segments are performing well though. Loan systems and servicing has recovered slightly after taking a hit in 2016, and Nelnet Business Solutions and Communications have both seen a steady increase from previous years.

Nelnet has still taken a hit though, as net income attributable to the company has continued to fall. This is partly due to diversification and investment in child companies that operate on their own. As such, the earnings per share has fallen by almost a third in 2017. Despite this, dividends per common share rose. This could be because Nelnet is looking to keep investors from leaving during this transitional period, but the exact reason is not stated.

	Year ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands, except share data)				
Operating Data:					
Net interest income	\$ 305,238	372,563	431,899	436,563	413,875
Loan systems and servicing revenue	223,000	214,846	239,858	240,414	243,428
Tuition payment processing, school information, and campus commerce revenue	145,751	132,730	120,365	98,156	80,682
Communications revenue	25,700	17,659	—	—	—
Enrollment services revenue	—	4,326	51,073	62,949	79,275
Other income	52,826	53,929	47,262	73,936	65,101
Gain on sale of loans and debt repurchases, net	2,902	7,981	5,153	3,651	11,699
Net income attributable to Nelnet, Inc.	173,166	256,751	267,979	307,610	302,672
Earnings per common share attributable to Nelnet, Inc. shareholders - basic and diluted:	4.14	6.02	5.89	6.62	6.50
Dividends per common share	0.58	0.50	0.42	0.40	0.40

Figure 1. Select operating data from Nelnet's 2017 financial report.

We can see a few things from Nelnet's balance sheet data, shown in *Figure 2*. First, they maintain a large amount of cash and cash equivalents. Aside from 2014, this amount has hovered around \$65 million and shows that Nelnet has resources readily available for investment. Second, loans receivable is down \$3.1 billion from the amortization of FFELP loans, and it is reflected in the decline in total assets. Finally, outstanding common shares have been decreasing over the past five years as Nelnet buys back its stock from investors. Inversely, shareholder equity and the value of common shares have been rising over the same period.

	As of December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands, except share data)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 66,752	69,654	63,529	130,481	63,267
Loans receivable, net	21,814,507	24,903,724	28,324,552	28,005,195	25,907,589
Goodwill and intangible assets, net	177,186	195,125	197,062	168,782	123,250
Total assets	23,964,435	27,193,095	30,419,144	30,027,739	27,704,028
Bonds and notes payable	21,356,573	24,668,490	28,105,921	27,956,946	25,888,468
Nelnet, Inc. shareholders' equity	2,149,529	2,061,655	1,884,432	1,725,448	1,443,662
Tangible Nelnet, Inc. shareholders' equity (a)	1,972,343	1,866,530	1,687,370	1,556,666	1,320,412
Outstanding common shares	40,810,104	42,105,044	43,953,460	46,243,316	46,376,715
Book value per common share	52.67	48.96	42.87	37.31	31.13
Tangible book value per common share (a)	48.33	44.33	38.39	33.66	28.47
Ratios:					
Shareholders' equity to total assets	8.97%	7.58%	6.19%	5.75%	5.21%

Figure 2. Select balance sheet data from Nelnet's 2017 financial report.

Competitors

Nelnet's main competitors in the loan systems and servicing segment are Navient Corporation and FedLoan Servicing. Great Lakes Education Loan Services was also a major competitor in this market until

Nelnet acquired them. There are also 31 not-for-profit servicing entities that are partnered with the government which have been taking a small portion of new loans since they were authorized in 2015. Nelnet competes using their software (some of which is licensed out to select NFP organizations) and with specialized focus in private education loan servicing. This allows them to provide reliable service at a low cost.

In the tuition payment processing operating segment, Nelnet is the largest provider to private and faith based schools. There are many competitors in the K-12 segment, but no other companies hold significant market share. In higher education markets, Nelnet competes with fewer organizations, but also faces potential competition from colleges and universities developing their own in-house solutions. Nelnet competes in this market through service, features, and integration with other technologies.

The communications segment faces direct and indirect competition from many sources. Local phone companies, long distance carriers, internet service providers, and satellite companies all directly compete with Nelnet for potential customers. These services are not mutually exclusive and change by location, but the similarity in their services and their larger infrastructure costs means they compete fiercely to acquire customers. In addition to those, there are potential competitors from emerging companies that are leveraging new technology to provide similar services to end users through newer and cheaper means. Nelnet competes through ALLO's services that provide gigabit capable, wired internet to areas that have had limited offerings.

Analysis

SWOT

SWOT analysis is used to help identify important aspects of an organization. The strengths and weakness are internal aspects of the organization; things they currently do and have influence over. Opportunities and threats are external aspects relating to the general operating environment the organization is in. These four aspects are useful in identifying key areas to build strategies around.

Strengths

Nelnet's greatest strengths as a company come from its size, longevity, and diversification. Nelnet enjoys economies of scale within each of its operating segments except for its newly acquired communications segment. Nelnet has invested in the technology infrastructure to scale their businesses effectively, allowing them to manage assets in higher volumes than many competitors. This in turn allows them to mitigate risks associated with assets like serviced student loans, since higher volatility in some loans will be averaged out by loans with higher stability. Their size also allows them to generate large amounts of free cash flows that can be used to explore other areas of operations.

Nelnet's longevity in the industry is an important factor to their current success. There are large upfront costs to entering most of the industries Nelnet is in. For servicing loans in particular, large amounts of cash are needed to acquire loans, and that invested money won't see significant returns until much later. Across all of Nelnet's business, there is also the cost of acquiring customers, brand promotion, and establishing a presence in the market. Nelnet has already gotten through these stages and now reaps the benefits. By being an established leader in the student loans market, they can attract new customers

to originate loans with, and they can also secure contracted loans to service from other agencies like the government.

Both of the above strengths help with generating cash flows that are large enough that Nelnet can diversify into other industries. This is a strength that Nelnet has been using in recent years. Their recent acquisition of ALLO is a good example of this. Nelnet has no experience with communication networks, but it strategically makes sense for them to acquire a company. The communication networks business has a high barrier to entry because of the cost of laying the initial infrastructure. There is also a time between starting to work on the infrastructure and when users are able to start paying for the service where the investment isn't generating any positive cash flows. Nelnet has the cash to invest though, and they can afford to take a loss on it for a few years with the expectation that it will generate sizable and stable income in the future.

Nelnet has an additional strength that is specific to their Business Solutions segment. This strength is their existing customer network. Nelnet serves almost 11,500 private, faith-based schools. Their initial services were loan servicing and financial advising for families attending these institutions, but they have since expanded to entire school management solutions that include tuition management and billing, financial needs assessment, scholarship administration, student information systems, learning management systems, enrollment management, donations, and emergency notifications. Nelnet continues to develop new products to sell to these existing customers to keep them within Nelnet's ecosystem so it becomes harder to switch to a competitor. In higher education as well, they have expanded their offerings beyond student loans and now offer services like payment processing, tuition and billing management, and other services targeted at colleges and universities. The educational institutions become customers themselves and are able to pay for more expensive products, and they also potentially bring in new students for Nelnet's loan services.

Weaknesses

Nelnet's biggest weakness is that a key component of their business was servicing FFELP loans. As mentioned earlier, regulatory legislation was passed that discontinued this type of loan. While Nelnet has been fine so far, the FFELP loans they had acquired before 2010 are beginning to be paid off, eliminating that source of revenue. 2017 marked the largest decrease in value of their FFELP loans portfolio, from \$24.9 billion to \$21.8 billion, with half of the remaining value amortizing by 2025.

Nelnet needs to find a new source of revenue that can roughly match what is disappearing, however investing in new areas means that they are losing the ability to leverage their core strength. Nelnet has developed a specialty in servicing student loans. This includes assessing risk for them, handling transactions, managing delinquent payments, and domain knowledge and efficiency picked up from working in this particular area. If they look outside the specific area of student loans, they will have to readapt to the new specialty, and if they look outside of loans entirely, they lose out on the value of their domain expertise and some of the value of their software and infrastructure for managing loans.

Opportunities

Playing to Nelnet's strengths, there are many opportunities they could seize. Opportunities within the loan servicing domain are difficult to find because of regulations and oversight. Instead, Nelnet has looked to find operating efficiencies that can help reduce cost and improve on existing revenue. This

was an important reason in their acquisition of Great Lakes, since they do the same job but could consolidate their loan portfolios onto one system and get benefits from the scaling the system provides.

In the business solutions segment, there is an increase in the education market for private institutions. Since there are more potential customers, Nelnet can grab an even larger market share and expand their customer base for future products. There has also been an increase in students attending higher education institutions. This leads to potential increases in financial aid servicing, as well as to increased need for their products and increased revenue from serving larger populations.

The communications segment is an opportunity of its own. New technology advancements and aging communications infrastructure have started to make current offerings out dated or entirely obsolete. Changes in consumer habits toward digital streaming of content has also increased demand for improved communication services. ALLO offers those improved services in areas that haven't had them previously, and changing consumer values could see a large shift to improved services even at a higher price point.

Threats

By far the biggest threat Nelnet faces is governmental regulation. Changes in policy related to any of Nelnet's operating segments could cause large reduction in profits, disruption of the segment, or making a segment completely obsolete. The changes in student loan policies relating to the FFELP loans has threatened a core part of Nelnet's original business model, but it's effects haven't been fully seen yet. Future regulations might cause more immediate impact. Both loan management and the price of higher education are potential political hot topics, especially after the Great Recession, and the volatility of the current political climate could see dramatic change enacted in the near future.

Within the loan industry itself, Nelnet faces plenty of risks. Changes in the economy directly affect the value of the loans they service due to changing interest rates. Downturns in the economy also mean that more people are potentially unable to make payments, or are prepaying parts of the loan while interest rates are lower, affecting revenue gained from the investments.

The loan industry itself is also highly competitive. While there are few companies that are able to operate at the scale Nelnet does, business can still be taken by competitors, banks, smaller companies, or governmental bodies. Competitors compete largely on pricing which can allow for short term disruptions by anyone who has an advantage that lets them offer a lower price.

Finally, disruptive technology is a potential threat to Nelnet's operating segments. While Nelnet is mainly a finance company, they rely on technology to perform their business operations and sell technology products and services to their clients in the education sphere. New technologies have the potential to fundamentally change how these businesses operate and their purpose in the marketplace. A recent example is blockchain technology which could potentially change the way transaction processing is done, though we have yet to see widespread effects. Nelnet needs to be aware of, and adapt to, these changing technologies or else they risk segments of their business becoming outdated and obsolete.

PEST Analysis

PEST analysis (political, economic, socio-cultural, technology) is a tool used to understand the environmental factors of the market. In Nelnet's case, we will be looking at the student loans market, the educational software market, and the communications network market. Each market faces its own challenges and needs to be looked at separately to understand the unique factors at play.

Student Loan PEST Analysis

In the student loans market, political factors have a large influence. Government regulation in the finance and education fields can have wide spread consequences on how student loans are originated and serviced. Changes in tax laws can affect profits that organizations retain, and it is largely dependent on the political climate and leadership at a given time. The recent changes in tax code look to be beneficial to Nelnet's bottom line starting in 2018 (Noordhoek, 2018).

Economic factors have an effect on the value of student loans, particularly interest rate changes. These effects are seen over longer periods and they can cause the returns on initial investments to underperform expectations.

The main social factor is cultural attitudes towards higher education and career paths. Societal expectations that a college degree is crucial to getting a good job means that there are more students who will be taking out loans. Perceptions about spending money also can have effects with how loans are taken out. After the 2008 financial crisis, students tend to attend more affordable schools and not spend idle semesters figuring out what they want to do, thereby decreasing the amount they are borrowing for tuition (NCES, 2017).

Technology, as mentioned above, is an important factor because the ability to process high volumes of loans is dependent on the systems an organization has in place. This includes processes like secure record keeping, payment transfers, risk calculators, and portfolio management tools. These systems provide a high barrier to entry for new competitors who are attempting to perform at the same level of volume. Significant research and development costs are put towards maintaining and improving these systems as well as adopting new technologies. Having all of these technologies provides greater efficiencies though, which allows Nelnet to offer loans at better price points than many of their competitors.

Educational Software PEST Analysis

Educational Software, including student information systems and learning management systems, are relatively unaffected by political influences. As Nelnet sells mainly to private institutions, legislation and policies have little influence. Instead, education changes as a whole are more likely to affect this sector. Changes in public school offerings, regulations, and goals could potentially open up the market segment for the tools Nelnet already is offering to private institutions.

Economic factors are mostly related to clients ability to pay for these services. The economic climate can cause educational institutions to invest more in new technologies to improve student performance. Alternatively, in times of economic downturn, institutions won't be as willing to spend money on new systems.

Social factors are related to economic factors, but focus on customer values during economic change. If educational institutions or their stakeholders are looking to add value to their own offerings, they'll be more open to purchasing new software or expanding on their current systems. If finances are tight though, and fiscal responsibility is valued, institutions are not going to be making large purchases for these products.

The technology products themselves are affected by changes in technology advancements and availability. Technology has become better and cheaper, allowing schools to purchase these software programs to aid themselves in their operations and improve their own offerings. However, shifts in technology also mean increased research and development costs to keep up with current trends and consumer habits.

Communications PEST Analysis

The communications market has many political factors that affect it. Regulation is deemed necessary due to the high capital needed to enter into the market and maintain services (Economides, n.d.). Internet providers are also subject to additional regulations that are the result of legislation passed when the Internet was first being adopted. This means there are many potential pitfalls when operating in the market and expertise is needed to be able to understand the market and make accurate projections.

Economic factors don't affect the market much. Cost of infrastructure and service offerings may fluctuate slightly with economic conditions, but the industry is already capital intensive. Economic changes may affect the rate of expansion of telecommunications networks.

Social factors that affect the market are mostly trends in consumer behaviors. Technology usage has become ubiquitous and has created an increasing need for faster internet services that can serve more users. Users have also become more mobile though, so physical networks may be affected by demand switching to wireless network services entirely (Sheffer, 2015).

Technology factors have a large influence on the industry. Improvements in existing technologies and research into new ones mean there is a sizable research and development cost associated with staying competitive. There are also the cost to upgrade the infrastructure when these new technologies are rolled out. Users are looking for better services and features, so staying current with the industry is crucial to maintaining a competitive position.

Recommendations

Competitive Advantage

Competitive advantages are important when designing a business strategy. If a strategy is well aligned with a company's advantages, then the strategy is more likely to succeed since it is built on what the company naturally does well. On the flip side, a misaligned strategy is much less likely to succeed since resources are being spent in areas where the organization does not excel, and competitors who do well in those areas already are still going to be taking customers that value those aspects.

Nelnet's competitive advantages are sizable free cash flows, a sizable client network, and their technology infrastructure. These advantages arise naturally because of their strengths and position in the market. Free cash flows are available because they have succeeded as a company in the student loans market, but they also invest that money into new ventures instead of leaving it as pure gains to make the company look good on the balance sheet. Their client network, especially in private educational institutions, has been built by offering an array of services to meet different needs these clients face, and it provides an easy market for expansion of new products. Their technology infrastructure has also been created to serve their clients in all of their business areas, and it allows them to expand much more easily and branch out into related fields at lower costs.

Situational Analysis

Building on the analyses performed above, we can build a broad view of Nelnet's situation as an organization. Nelnet has a strong presence in its key markets of student loans and educational software. It has established itself as a reliable vendor in these markets and has a large customer network to sell current products and future offerings. While the potential for competition exists, Nelnet has created barriers to entry that make it unlikely for serious competitors to establish themselves. Nelnet's main threats come from technology advancements and governmental regulations.

Internally, Nelnet is suffering from the amortization of a sizable portion of their loans. This will impact revenue in the future, with half of the value being paid off by 2025. To combat this Nelnet has been using its available resources to diversify into new areas. This means going outside of their areas of expertise into new markets that have the potential to realize similar profits to what they are losing. Nelnet is also trying to shift their focus from student loans to consumer loans to try to leverage their current knowledge and technology in a separate market segment, but it is unclear at this time if this move will be easy or if it will have significant switching costs associated with it.

Possible Alternatives

Nelnet is a company that is large enough to try most reasonable solutions. They are not as constrained by money, personnel, or time compared to many smaller firms or startup companies. They have the resources to invest in areas that are capital intensive, but they also have a solid core business that they can rely on to meet their expenses in the meantime. Nelnet therefore has a few options available when deciding a strategy to take.

First, Nelnet can keep focusing on the loan market and leverage their current expertise. This is attractive as an option because it fits well with how the company already operates and they will have the domain knowledge and experience to make smart strategic decisions within the market. However, they will still be facing the same risks they currently face in regards to government regulation, competition in other market segments, and the risk inherent in servicing loans. The income is relatively stable when there are no dramatic changes in the market, but by putting more focus on loan servicing they stand to be hit harder if something does happen. Particularly in the current political and social climate, student loans may fundamentally change, wiping out the entire business segment.

Opposingly, Nelnet could choose to diversify their assets and expand into new business. This has its own complications, and requires specific planning to understand what industries are worth getting into and how they might affect the bottom line. To mitigate some of the risk, there is the option of acquiring a

company that is already in a target industry. By doing this, Nelnet can leverage the acquired company's expertise in the field to shortcut learning how to operate in an entirely new industry. This adds complexity of integrating them into Nelnet's current structure. Diversifying like this though allows Nelnet some flexibility and safety in case something happens to a different operating segment.

Since Nelnet has a good technology infrastructure already and has available resources, they could attempt to create new products or markets. This requires funding and time to accomplish, but it can lead to new ideas that can be very profitable if they are the first to enter the market and gain considerable market share. They could also look internally to combine products and services across business units to create unique offerings or find cost cutting efficiencies. Payment processing, management systems, and their recent communications venture are all services that could potentially benefit from being used in conjunction with each other or other products.

Finally, Nelnet could use their expertise as a service itself and branch into consulting, advising, or providing support services to other companies in their fields. While their business for some segments of student loans is going away, there are still students who need financial support. If smaller companies begin taking that business because they have efficiencies that Nelnet can't keep up with, those companies will still need to handle operations that Nelnet has significant industry knowledge in. Additionally, Nelnet's technology systems could be sold to competitors if Nelnet decides to leave the market entirely because they aren't seeing enough value in staying in the market themselves.

Strategic Recommendation

Nelnet should continue operating as it does currently while focusing on entering into synergistic markets. Operations are running smoothly, so there is no need to change what they are currently doing. Instead, they need to worry about the future and find ways to position themselves now to be ready for complications down the line.

Nelnet's core business segments are highly profitable and are generating excess revenue that can be put towards investment opportunities. These investments need to be aligned with their core strengths and competitive advantages though. Expanding into any market that seems profitable threatens to make company operations unmanageable. Instead, they need to target key markets that provide value across operating segments.

In the case of Nelnet's acquisition of ALLO, they played to their advantages and seized an opportunity in a new market. Since they can finance initial costs with expanding ALLO's networks and can afford to wait to see profits on this particular investment, it makes sense as a market to expand into. However, there is low synergy between the communications market and Nelnet's current product and service offerings. While this still works as a stop gap to address declining FFELP loan returns, it operates almost entirely as a separate entity from Nelnet's core businesses.

The ALLO acquisition does however open up some key opportunities that should be followed up on. New technologies are being developed in the areas of payment security and data integrity that utilize the decentralized nature of the internet. Blockchain technologies promise secure transactions and data safety, but require higher costs to manage and upkeep them. Nelnet has the capital to handle those costs, and they stand to benefit greatly from the adoption of this new technology.

However, blockchain technologies are not the ultimate solution to Nelnet's concerns. Blockchain may prove to be a technological fad, fading from relevance in a few years. Instead, it serves as an example of how Nelnet should look to expand itself. It is a new technology that touches several of Nelnet's business units, and it can be made into a competitive advantage that Nelnet can use as a barrier to entry due to its higher capital investment.

Implementation Plan

Since Nelnet is in a stable financial state right now, they can afford to look long term and implement their strategic plans over the course of a few years. The issue they are facing is in regards to finding a new source of revenue to off set what the decreasing value of FFELP loans. Half of that value will be gone by 2025, so that creates a soft deadline by which the strategy should be implemented to provide financial stability in the transition process.

Beginning now, Nelnet should be researching new markets and developing expansions on their current markets. This includes shifting the focus of their loans segments from student loans to a broader segment of student and consumer loans. Nelnet is doing this already, but their focus seems to be with selling to existing markets they are in, as opposed to finding opportunities across related markets. While this is fine in the short term, they should also be looking for new markets that have the potential for fast growth and sizable profit margins.

The next two years should be used to start probing these new markets to find a core product to begin expansion around. This allows enough time for research and testing some initial offerings to get a good idea of what customers are looking for. It also gives enough time for the later stages to become fully fleshed out before the final date.

Over the next year, a product should be launched on a small scale to find issues with it, iterate on the design and solidify the vision of what the product should be so it is market ready. As soon as the product is in a reliable state and is ready to be sent to market proper, it should be launched to all potential customers in this market. The lead up to launch could be used for marketing depending on who the customers may be, and the release itself may need to be timed to a specific time of year to get the best results. This should affect the product's roll out only if entering the market isn't time critical.

The last four years should be taken to grow the product and let it make some money. By this point, the concerns about the diminishing cash flows will be growing, but it's still in a manageable stage so it isn't helpful to make snap judgement calls at the start of this period. Instead, let the product do its work in the market and invest development resources to make it successful but not more resources than what is needed. During this period the company should be looking to maximize profits by keeping maintenance and investment costs to what makes sense for the product's scale.

Beyond this window, if the product is doing well, Nelnet can look to expand out on it or keep it at a steady level if it is reliably achieving the profits they want. Stakeholders may want Nelnet to maximize profits, but they need to do it in a maintainable way. Growing steadily can be very beneficial since the gains are consistent and the appropriate amount of resources can be delegated to it for long term success.

During this entire process, Nelnet can be trying multiple ideas and looking into different industries at the same time. They have the capital to do it, so unless they take on another big venture like the ALLO

acquisition, they should have the money to spread around. The first three years of this process are more about learning what a product should be, and it leaves enough time to settle on something good, or evaluate it as a failure and move on. The later stages when the product is being built out and maintained are where the real costs begin to come in and it can be harder to make a good judgement call on whether to stop development and look elsewhere. A proper contingency plan or exit strategy should be created early on to determine when to drop a project. Unfortunately, this would be specific to the product and market, so a recommendation is difficult to make in a general sense.

Conclusion

Nelnet as a company is actually in a good spot at the moment. Despite declining revenues in their loan business due to amortization of loans they had been servicing for several years, they still have a healthy buffer to find new ways to make similar cash flows. Their core operating segments are doing well, with a forward looking expansion into consumer loans and further growth in their education products. Additionally, new ventures like their acquisition of ALLO could see impressive returns in a few years.

Nelnet is well positioned in their industries, and their major threats are from potential governmental regulation instead of direct competitors. They have a good technology infrastructure to support their scale of operations, and they have an existing network of clients that they can sell new products to as they are developed.

Overall, as long as Nelnet plans for the future and makes good use of their resources they should remain a profitable company for the foreseeable future. They may even grow in new ways that increase their value to higher levels than their loan operations could take them. Their actions in this upcoming transitionary period will be crucial to setting themselves up for long term success.

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